November 10, 1992

Fr: Keith Jordan
To: Point Board
cc: Christine Goodson

Re: Current Financial Situation

As a result of several revenue short-falls, we are in the midst of a short-term financial crisis. This short-term problem is also serving as a "wake-up call" with regard to our overall financial prospects for Whole Earth Review and the new projects under development.

Short-term crisis:

As I mentioned in my report to the Board last month, subscription revenues since August have been below projections. In total, the short-fall equals $30,000 for August through October. In addition I have been compelled to revise projections for November and December downward by $10,000. I believe this short-fall to be partly due to inaccurate projections on my part (due to incomplete financial information and the limitations of our fledgling financial reporting systems).and partly to a genuine reduced response, perhaps due to the recession and/or an election-related slow-down. Unclassified ad sales, mailing list rentals and donations are also modestly down. We have taken these changes into account in projecting revenues for 1993.

In addition, we project that net revenues from our national newsstand distributor for WER #75 (Mutual Hypnosis on the cover) will be $10,000 below average, which may be related to the small amount of explicit material on sex zines in that issue. This lost revenue would have normally come in during the fourth quarter of 1992.

For these reasons, revenues for the last five months of 1992 are projected to be $55,000 less than originally anticipated.

WE NEED A SHORT-TERM LOAN OF $30,000 TO MEET IMMEDIATE OBLIGATIONS -- A MINIMUM OF $15,000 BY THIS FRIDAY AND ANOTHER $15,000 THE FOLLOWING WEEK.

The bigger picture:

John Hallett, the controller at Bruce Katz's firm, Rosewood Stone, had offered to advise me on how to present accurate and effective information to the Point Board on a monthly basis. When I took him up on his offer, the dimensions of our current crisis were becoming clear and John advised that we take the wider view, beginning by considering the following issues:

- Can WER break even, on both a cash and an accrual basis?

- Can the projects break even (including covering the overhead associated with their development)?

- How are we going to generate the excess cash necessary to give us the reserve we need to operate comfortably (perhaps $60,000 to $100,000)? Without a cash reserve and careful attention to cash flow it will be impossible to grow either the magazine or new projects.

Even as we deal with the current survival-threatening situation, we also need to consider the long term. I believe that WER can be made to break even on both a cash and accrual basis for 1993, but it can neither generate funds for the necessary cash reserve nor provide funding for new project development. What follows is a proposal for how we would use a loan both to take care of our short-term cash flow needs and also to improve our overall financial situation so that we can continue to do new and exciting things.

The Proposal:

The Loan - We have an immediate need of $30,000 to make mid-month payroll this Friday and to pay our outstanding bills. Beyond that we would like to borrow another $70,000 to provide sufficient cash reserves over the first three quarters of 1993 to allow us to develop new projects, pursue direct mail and optimize our magazine sales efforts. This loan should allow us to maintain a minimum cash balance of about $50,000, provided we meet our goals for WER revenues and expenses, new projects, and generating money for a permanent cash reserve (see paragraph below and accompanying cash flow projection).

Our proposal is that we borrow the $100,000 using our stock in the WELL as collateral. We propose that the loan be for a period of fifteen months, with payment to be made in five equal monthly installments beginning October 1993.

Whole Earth Review - We have approximately 9% more subscribers up for renewal in 1993 than in 1992 and there is a higher proportion of people in that mix who have renewed at least twice before. These changes are the result of our having abstained from getting subscribers to renew early over the past two years. Consequently, we are in a good position to expect continued growth in subscription revenues. Because the issues being served in 1993 will have a higher average price than those in 1992 we will also be earning significantly more revenue per sub.

In addition, Tom White and I are confident that we can generate another $36,000 in net WER revenues over the course of 1993, most likely from a targeted effort to increase the proportion of two and three year subscriptions. This revenue will not improve our profit/loss picture -- the money will not be earned until the extra issues are served the next year -- but it will make a significant cash contribution.

We are setting aside money for small scale testing of direct mail -- a $15,000 net loss over the course of 1993. And we are projecting spending $12,000 on badly needed computer hardware for our Production Department before the end of the year; we are also trying to get some or all of that equipment in the form of grants. In other areas, we are assuming revenues and expenses for 1993 will be similar to 1992.

Projects - For 1993, Jon McIntire and I have estimated overhead expenses of approximately $100,000 for new projects -- consisting primarily of the salaries and related expenses for Jon and his assistant Marly, plus another $2,000 a month for development expenses. The goal is to cover this cost through some combination of fundraising and contribution to overhead from the projects themselves. Our cash flow projection anticipates that this money will come in at the rate of about $11,000 per month for the last nine months of 1993. As specific projects happen they will have their own expenses and income, but this $100,000 is in addition to the direct project-related expenses.

Cash Reserve - Our goal is to have a cash reserve in excess of one month of regular operating expenses: $75,000-$100,000. This money would be set aside to prevent situations such as we now find ourselves in and would be left untouched in all but the most extraordinary circumstances. John Hallett, Christine Goodson and I agree that it is unlikely the magazine can generate this reserve on its own (without an unhealthy return to excess selling of long-term subscriptions).

A feasible source for such a chunk of cash is through the sale of our Zomeworks stock. According to Zomeworks owner Steve Baer our stock should be worth $150,000 to $300,000, if a buyer can be found. There may be an opportunity to sell this stock some time in the next few months. Zomeworks will be making a new offering of stock and if there is enough demand we may be able to piggyback on their offering. In any event, some source must be found for such a reserve or once our loan is paid off we will be back in the same extremely cash-poor position.